CONSOLIDATED HCI HOLDINGS CORPORATION

ANNUAL REPORT • 1999

Revenue for the year ended September 30, 1999 increased to $78,834,000 from the previous year's $55,480,000. The increase was primarily the result of both higher land and housing sales.

The company recorded net earnings of $5,773,000 or $0.27 per share compared to the previous year's earnings of $16,084,000 or $0.75 per share.

The 1998 pre-tax earnings included the $22,653,000 settlement of debt relating to a land assembly in Metropolitan Toronto and the Les Cours Mont-Royal project.

Rental of industrial space in our business park continues to be strong with rents increasing and vacancies presently at 3%. During the year construction was completed and all 90,000 square feet was leased in an industrial building in the Pine Valley Business Park. Three other buildings totalling 150,000 square feet are planned for 2000.

The company continues to have satisfactory relations with its banker. During the year the non-revolving loans were paid down by $16,000,000 and the expectation is that these loans will continue to be paid down in the current year.

The company has sold serviced lots in Mississauga and Kleinberg with registration and servicing expected to take place in 2000. The company's share of the gross revenue for these sales will be approximately $24,000,000.

With the 1998 settlement of debt referred to above, the main task facing the company continues to be the reaching of an agreement with the debenture holder to modify the repayment timetable for the debt. Discussions are continuing and in consideration of the debenture holder's forebearance the interest rate on the debenture was increased by 2 percentage points during the year. The company expects that an arrangement agreeable to both parties is achievable.

Management and the board of directors are of the opinion that the value of the company's assets is substantially greater than that reflected in the trading prices for the company's shares over the past year. In the coming year management plans to continue its efforts in dealing with the question of how to increase shareholder value.

Stanley Goldfarb
President

These management comments on the financial condition of the company and results of operations for the two years ended September 30,1999 are the views of management and should be read in conjunction with the consolidated financial statements including related notes in this 1999 Annual Report.

The company's activities in the real estate industry are conducted through wholly-owned subsidiaries as well as in concert with others at varying participation rates through partnerships, joint ventures, co-tenancies and limited company ventures. The financial statements include these ventures on a proportionate consolidation basis. The activities of the company include the development of raw land by obtaining all necessary regulatory approvals and installing service infrastructures. These lands are then either sold to builders or other interested parties or retained by the company for the construction of industrial, commercial or office facilities which are then leased out. The company also conducts activities through various ventures in the building and selling of new homes on land purchased from others as well as from the company.

RISKS

Financial Insecurity

At September 30,1997 the company was faced with certain debts totalling $59.4 million that were in default and the creditors were in a position to force the payment of these amounts. Of these debts, $16.5 million represented the estimated shortfall on a forfeited land assembly in Metropolitan Toronto and $17.3 million represented the company's provision to settle all of its estimated obligations related to its participation in the Les Cours Mont-Royal partnership. During 1998 the company recorded interest on the land assembly shortfall at 10% and the Les Cours Mont-Royal debt at 11.75% giving rise to liabilities as at September 30, 1998 of $17.7 million and $19.3 million, respectively.

On September 30, 1998, following lengthy negotiations with a "Lenders Group" representing substantially all of the creditors of the Metropolitan Toronto land assembly and the Les Cours Mont-Royal project, and direct negotiations with the creditors who were not part of this group, the company settled all of its outstanding obligations at a total cost of $14.8 million giving rise to a gain of $22.7 million.

The remaining balance of these liabilities at September 30, 1999 amounts to $30.5 million, being the amount owing under a demand debenture issued by the company. The company recorded interest expense of $2.7 million on this debt in 1999 and $2.2 million in 1998. The demand debenture is owed to a company controlled by a director, as trustee for a lending syndicate which includes certain shareholders of the company.

At September 30, 1999, the company does not have sufficient funds available to commence making payments on the demand debenture and is capitalizing interest incurred. The debenture holder has confirmed that, providing the company's bank loans remain in good standing, it will not demand payment on the loan during the 2000 calendar year. The company is in discussions with the debenture holder with a view to establishing a repayment timetable satisfactory to both parties. In consideration of the debenture holder's continued forebearance, interest payable on the debenture was negotiated upward by two percentage points effective July 1, 1999.

Additional Risks

The ongoing profitability of the company is based to a large extent upon a stable and sustaining market in the real estate sector in the Greater Toronto Area. Any instability that might arise to replace the current economic conditions could cause our future subdivision projects under development to be delayed and the time frame to collect any amounts due from sales to be extended. The timetable for development of lands held for

future development would have to be re-examined. Any reduction in the level of activity in the housing sector will also affect our housebuilding joint ventures as they could be faced with losses on inventory. In addition, any setback in the current growth of the economy could lead to difficulties with our rental portfolio. At the present time, management is satisfied that the company's land inventories are valued at the lower of cost and net realizable value.

The company is subject to interest rate fluctuations and current speculation is that there may be modest rate increases during the fiscal year 2000. The company is continuing to follow its policy of replacing bridge financing with fixed-term debt on its properties when it is available.

RESULTS OF OPERATIONS

Net Results and Taxes

For the year ended September 30,1999, the company recorded earnings before taxes and loss on disposal of income-producing property of $11.5 million compared to earnings the previous year of $1.8 million before taxes and gain on settlement of debt of $22.7 million. After recording a loss on disposal of an income-producing property in 1999 the company recorded earnings before income taxes of $11.3 million compared to pre-tax earnings of $24.5 million after recording a gain on settlement of debt in 1998. In 1999 the company recorded a provision for income taxes of $5.5 million compared to a provision of $8.4 million in 1998. In 1998 a portion of the gain on settlement of debt relating to the Les Cours Mont-Royal project was not tax effected since the original provision was not tax effected. The company recorded a provision for large corporations taxes of $0.3 million in 1999 and $0.4 million in 1998. After taxes the company showed net earnings for the 1999 year of $5.8 million or $0.27 per share. The previous year of 1998 showed net earnings of $16.1 million or $0.75 per share. The number of shares outstanding for both 1999 and 1998 was 21,368,442 with no outstanding dilutive items in either year.

Revenue

Total revenue for 1999 increased to $78.8 million from the previous year's $55.5 million. This increase resulted from both increased land and housing sales. As mentioned in previous years, the nature of development does not allow for a consistent year to year volume of sales. The revenue comprises specific projects as the marketplace dictates and buyers become available. During 1999 the company recorded the sale of approximately 10 acres of commercial lands in five locations and the sale of 725 units in various subdivisions and infill sites (our share was 491 units). In the previous year, the main components of the recorded revenue were from the sale of approximately 13 acres of industrial lands in one location and the sale of 411 units in various subdivisions and infill sites, where our share was 284 units.

Typically sales of land under agreements of purchase and sale allow the purchaser an interest-free period of between 6 and 24 months. Accordingly, revenue from sale of land is recorded at a discounted value to account for the interest-free period.

That portion of revenue recorded as real estate land sales was $42.2 million for 1999 compared to $30.5 million for 1998. The revenue from housing sales as recorded by our joint ventures increased to $19.4 million for 1999 from the previous year's $9.4 million. The increase in revenue is attributable to increased demand in the housing market.

The rental revenue for 1999 was $13.8 million compared to the previous year of $12.9 million. The rental revenue increase in 1999 resulted from increased rental rates and the addition of approximately 90 thousand square feet of new industrial space which was under construction at the end of 1998.

Interest and other income includes interest on receivables from land sales in the amount of $2.5 million in 1999 and $2.2 million in 1998. Also included in both years are project management fees of $0.4 million earned from operating partnerships, joint ventures and co-tenancies in which the company has an interest.

Expenses

Real estate cost of sales for land and the rate of profit on housing sales are functions of the projects sold. The land cost of sales for 1999 was 72% of net sales revenue compared to 78% in 1998 and 62% in 1997. The rate of profit on housing sales decreased to 3.8% in 1999 from 6.1% in 1998. In 1997 the rate was 2.4%.

Rental operating expenses in 1999 have increased over 1998 primarily due to business occupancy taxes levied on the 90 thousand square feet of new industrial space added during 1999. Financing costs are showing a dramatic decrease over those of 1998. This decrease has resulted from the repayment of non-revolving bank debt, the refinancing of matured debt on an income-producing property at a lower interest rate, the absence in 1999 of debt settled at the end of 1998 and the decline in the bank prime interest rate throughout the year. General and administrative costs have increased by $0.5 million primarily as a result of the change in the compensation arrangement with the company's senior management. Amortization expense showed an increase for 1999 primarily due to a one-time charge to write off the balance of goodwill resulting from a transaction in a prior year.

FINANCIAL CONDITION

Assets

Income-producing properties increased in 1999 by $2.5 million. This increase is comprised of the completion of a new $4.5 million building to the industrial rental portfolio net of the disposal of the Barrie commercial property and annual amortization. This compares to a net decrease in 1998 of $1.0 million resulting from annual amortization and an adjustment to the cost of a commercial property completed in 1997.

At September 30,1999 the company's portfolio of wholly-owned income-producing properties comprises 1.6 million square feet of industrial space, office space of 43 thousand square feet and commercial space of 91 thousand square feet. The portfolio increased during 1999 with the addition of 90 thousand square feet of industrial space net of the disposal of 3 thousand square feet of commercial space. The vacancy rate at September 30, 1999 showed a marginal increase over the previous year with industrial at 3.3%, commercial at 6.7% and with no office vacancies, producing an aggregate vacancy rate of 3.3%, up from the 2.5% at September 30,1998.

The property under development at September 30, 1998 represented the carrying value of land and construction costs to date of a 90 thousand square foot industrial building under construction in the Woodbridge Pine Valley Business Park. Construction was completed during 1999 and the building was fully leased at September 30, 1999.

Land inventory is segregated on the balance sheet as land held for future development which is primarily raw land and land and housing under development which represents land that is being or has been serviced or developed and the inventory of housing under construction of our joint ventures. The company's inventory of land, excluding the housing under construction, decreased by $12.4 million in 1999. This decrease was primarily the result of cost of sales in excess of expenditures on land inventory to bring land to market. The major components of cost of sales relate to commercial land sold in Mississauga and Woodbridge and residential lots in Mississauga, Woodbridge and Kleinberg. Expenditures on land relate largely to the properties sold. The company's inventory of housing under construction increased by $5.4 million due primarily to the purchase of the land in

four new developments carried out through two different joint ventures. The major components of the 1997 to 1998 year to year change were the reduction relating industrial land sold in the Woodbridge Pine Valley Business Park and residential lots in Mississauga, Woodbridge and Kleinberg.

Cash comprises cash and cash equivalents, comprising unrestricted cash and term deposits of a maturity of three months or less from the date of acquisition and restricted cash, comprising term deposits required to secure outstanding guarantees and letters of credit and amounts required to fund costs to complete projects sold.

Amounts receivable increased by $16.5 million in 1999 compared to a decrease of $5.4 million in 1998. Receivables at September 30, 1999 include $28.2 million as a result of agreements of sale completed during the year.

Liabilities

Bank advances decreased in 1999 by $10.6 million, $2.4 million of which relates to obtaining permanent financing on an income-producing property to replace bank advances. The 1998 decrease of $15.6 million includes a $14.0 million increase to finance the settlement of debt and a decrease of $6.7 million on obtaining permanent financing on certain income-producing properties to replace bank advances.

Loans payable increased by $4.3 million primarily as a result of a new mortgage loan of $4.9 million secured by two income-producing properties, which was used to repay an existing mortgage loan of $2.5 million on one of the properties and to replace bank advances of $2.4 million on the other, an increase of $4.4 million in loans payable on land purchased by the company's housebuilding joint ventures and interest of $2.7 million capitalized on the demand debenture. These increases were offset by repayments of $3.3 million on a loan from a joint venturer and the repayment of the $0.4 million mortgage on the income-producing property sold during the year. Regular payments of mortgage loans amounted to $1.5 million. In 1998 loans payable decreased by $24.8 million due primarily to the settlement of $37.4 million of debt relating to the Les Cours Mont-Royal guarantees and the Metropolitan Toronto land assembly mortgages, discharge of a mortgage of $1.3 million on land held for future development and repayment of a mortgage on an income-producing property of $1.2 million. Repayments of loans payable were offset by new mortgages totalling $6.7 million on seven income-producing properties to replace bank advances, an increase of $3.9 million in loans payable on land purchased by the company's housebuilding joint ventures, interest of $3.6 million on the debt settled during the year and $2.2 million of capitalized interest on the demand debenture. Regular payments of mortgage loans amounted to $1.3 million.

Accounts payable and accrued liabilities increased in 1999 and 1998 by $11.9 million and $4.6 million, respectively. These changes include the impact of an increase in the estimated costs to complete projects sold of $8.4 million in 1999 and $3.4 million in 1998. These payables are directly affected by the company's development activities outstanding at year end. Deposits on sales decreased in 1999 and represent deposits received for sales that are expected to take place in 2000.

THE YEAR 2000 ISSUE

The company is not overly dependent on information technology and its systems are not complex, either from an accounting or operational perspective. The company reviewed its internal computer systems and determined that it was necessary to acquire new, year 2000-compliant accounting software and hardware. The software and hardware have been installed, testing has been completed and the systems are fully operational. The company has communicated with its customers, principal suppliers and business

partners to determine their state of year 2000 compliance and has evaluated their responses. The company did not receive any responses which would indicate that it would encounter any year 2000 changeover problems with these third parties.

The company's costs to become year 2000 compliant did not exceed its projected estimate of $0.1 million and all such costs have been incurred and reflected in the 1999 financial results. Although the company's year 2000 compliance project has been completed on a timely basis, there can be no assurance that the systems of other companies, on which the company relies, have been successfully converted before the year 2000, or that any such failure to convert by another company would not have an adverse effect on the company's operations.

As of January 21, 2000 the company has had no indication that its own systems or those of others on which it relies have been adversely affected by the arrival of the year 2000.

OUTLOOK

In 2000 the company is anticipating bringing to market its share of the sale of 385 units in the Mississauga subdivisions and 107 units in the Kleinberg subdivisions. These closings, the company's share of which are 243 units, will generate proceeds of approximately $24.2 million. The timing of the recognition of these sales and the collection of the related proceeds will depend on, respectively, the company satisfying all conditions required to close with the housebuilder and the housebuilder's closing with the ultimate homebuyer. The company is confident that banking arrangements to fund the servicing costs of these projects will be concluded early in 2000 where arrangements have not already been made.

The company also anticipates that net rental revenues will continue to increase as favourable market conditions continue to prevail and the company achieves higher rents on lease renewals.

MANAGEMENT RESPONSIBILITIES

The consolidated financial statements of Consolidated HCI Holdings Corporation have been prepared by management of the company in accordance with Canadian generally accepted accounting principles.

Management maintains appropriate controls to provide reasonable assurance that the assets of the company, its subsidiaries and joint ventures are safeguarded and that financial information is reliable and accurate. Where necessary, management uses judgement to make estimates based on informed knowledge of the facts.

The Board of Directors bears ultimate responsibility for the financial statements. An audit committee composed primarily of outside directors has reviewed in detail these statements with management and also with the external auditors appointed by the shareholders. The audit committee has recommended their approval to the board. The Board of Directors has approved these consolidated financial statements.

All other financial and operating data included in the annual report are consistent with information contained in the consolidated financial statements and have been reviewed by the Board of Directors.

Stanley Goldfarb
President and Treasurer

AUDITORS' REPORT

TO THE SHAREHOLDERS OF CONSOLIDATED HCI HOLDINGS CORPORATION

We have audited the consolidated balance sheets of Consolidated HCI Holdings Corporation as at September 30, 1999 and 1998 and the consolidated statements of earnings and retained earnings (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at September 30, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PRICEWATERHOUSECOOPERS LLP
Chartered Accountants

Toronto, Canada
December 17, 1999

CONSOLIDATED BALANCE SHEET

September 30 (in thousands of dollars)	1999	1998
ASSETS		
Income-producing properties (note 3)	$ 72,286	$ 69,757
Property under development (note 4)	—	2,167
Land and housing under development (note 5)	41,105	35,990
Land held for future development (note 6)	40,568	52,596
Cash (note 7)	19,842	13,108
Amounts receivable (note 8)	39,488	23,030
Other	2,004	2,247
	$ 215,293	$ 198,895
LIABILITIES		
Bank advances (note 9)	$ 30,681	$ 41,254
Loans payable (note 10)	98,857	94,539
Accounts payable and accrued liabilities	31,520	19,632
Deposits on sales	1,858	2,029
Income taxes payable	1,144	1,144
Deferred income taxes	13,373	8,210
	177,433	166,808
SHAREHOLDERS' EQUITY		
Capital stock (note 11)	37,269	37,269
Contributed surplus	374	374
Retained earnings (deficit)	217	(5,556)
	37,860	32,087
	$ 215,293	$ 198,895

See accompanying notes

Approved by the Board:

Director

Director

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS (DEFICIT)

Year ended September 30 (in thousands of dollars, except per share amounts)	1999	1998
REVENUE		
Real estate sales		
Land	$ 42,178	$ 30,462
Housing	19,386	9,358
	61,564	39,820
Rental	13,783	12,865
Interest and other income	3,487	2,795
	78,834	55,480
EXPENSES		
Real estate cost of sales		
Land	30,412	23,746
Housing	18,658	8,788
	49,070	32,534
Rental operating expenses	4,210	4,004
Financing	9,833	13,686
General and administrative	2,858	2,449
Amortization	1,384	996
	67,355	53,669
Earnings before the undernoted	11,479	1,811
Loss on disposal of income-producing property	(194)	—
Gain on settlement of debt (note 10)	—	22,653
	(194)	22,653
Earnings before income taxes	11,285	24,464
Provision for income taxes (note 13)	5,512	8,380
Net earnings for the year	5,773	16,084
Deficit, beginning of the year	(5,556)	(21,640)
Retained earnings (deficit), end of the year	$ 217	$ (5,556)
Net earnings per share	$ 0.27	$ 0.75

See accompanying notes

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended September 30 (in thousands of dollars)	1999	1998
Cash provided by (used in)		
OPERATING ACTIVITIES		
Net earnings for the year	$ 5,773	$ 16,084
Add non-cash items		
Deferred income taxes	5,163	7,967
Amortization	1,384	996
Loss on disposal of income-producing property	194	—
Gain on settlement of debt	—	(22,653)
Other	138	133
Costs recovered through sales of real estate	49,070	32,534
Expenditures on housing under development and land	(22,581)	(17,618)
Repayment of loans payable on housing under development	(6,609)	(1,662)
Repayment of mortgage loans on land held for future development	(3,407)	(1,686)
Interest expense not paid	2,657	5,834
Changes in non-cash operating balances		
Amounts receivable	(16,458)	5,361
Accounts payable and accrued liabilities	3,476	1,197
Deposits on sales	(171)	875
Income taxes payable	—	(266)
Other	(239)	496
	18,390	27,592
INVESTING ACTIVITIES		
Expenditures on		
Income-producing properties	(2,379)	(1,517)
Land held for investment	(109)	(263)
Proceeds of sale of income-producing property	784	—
	(1,704)	(1,780)
FINANCING ACTIVITIES		
Mortgage loans on income-producing properties		
Proceeds	4,900	7,081
Repayments	(4,279)	(2,408)
Bank advances		
Proceeds	6,314	20,657
Repayments	(16,887)	(36,271)
Repayment of other loans payable	—	(14,775)
Restricted cash	(3,808)	798
	(13,760)	(24,918)
Increase in cash and cash equivalents during the year	2,926	894
Cash and cash equivalents, beginning of the year	5,517	4,623
Cash and cash equivalents, end of the year	$ 8,443	$ 5,517
SUPPLEMENTARY INFORMATION		
Interest expense paid	$ 7,176	$ 7,852
Income taxes paid	349	413
Interest income received	2,363	2,602

See accompanying notes

1. BASIS OF PRESENTATION

At September 30, 1999, the company does not have sufficient funds available to commence making payments on its demand debenture referred to in note 10 and is capitalizing interest incurred. The debenture holder has confirmed that, providing the company's bank loans remain in good standing, it will not demand payment during the 2000 calendar year. The company expects that ongoing negotiations with the debenture holder will result in the company being able to meet its obligations under the loan agreement. Accordingly, these consolidated financial statements have been prepared on a going concern basis in accordance with generally accepted accounting principles.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the company are in accordance with generally accepted accounting principles appropriate for the real estate industry. Outlined below are those policies considered particularly significant.

Principles of Consolidation

The consolidated financial statements include the accounts of the company and its subsidiaries, together with the company's proportionate share of the assets, liabilities, revenue and expenses of operating partnerships, joint ventures and co-tenancies.

Income-producing Properties and Amortization

Income-producing properties are carried at the lower of cost, less accumulated amortization, and net recoverable amount.

Amortization of buildings is provided for on the sinking fund method in annual amounts increasing at the rate of 5% compounded semi-annually, which is designed to fully amortize the costs of the buildings over their estimated useful lives as follows:

Industrial buildings – 35 years
Commercial buildings – 40 to 50 years

Amortization of equipment is provided at 20% on a diminishing balance basis.

Properties Under Development

Properties under development are carried at the lower of cost and net recoverable amount.

Land and Housing Under Development and Land Held for Future Development

Land held for resale and housing under development are carried at the lower of cost and net realizable value. Net realizable value represents the amount of estimated net sales proceeds, taking into account management's assumptions and projections for the development of the property and market conditions.

Land held for investment purposes is carried at the lower of cost and net recoverable amount.

Capitalization of Costs

The company capitalizes certain costs applicable to properties under development, housing under construction and land. These costs include costs incurred during the development period, such as specific interest, realty taxes and that portion of general and administrative expenses considered applicable. For land projects, the development period is considered to have ended when the project is available for sale or lease.

Income Recognition

Rental expenses, net of revenues, are capitalized to building costs until a satisfactory level of occupancy is attained. This level is generally determined by a break-even point in cash flow earnings subject to a reasonable maximum period of time. At that time, rental income or loss is recognized in the consolidated statement of earnings.

Land sales under agreements of purchase and sale are recognized as income once all material conditions have been fulfilled and the company has received a down payment that is appropriate in the circumstances having regard to the financial resources of the purchaser. Land sales are reported net of the imputed discount arising from interest-free periods granted on balances due under

agreements of purchase and sale.

Housing sales are recognized at the time of closing.

Costing and Land Sales

Costs are allocated to the saleable acreage of each project or subdivision as follows:

a) undeveloped land cost is pro-rated on an acreage basis to each phase of a subdivision. For commercial and industrial projects, costs are then allocated on a net acreage basis; and

b) servicing costs are allocated to individual lots on a front footage basis in each phase of a subdivision under development and on a net acreage basis for commercial and industrial projects.

Income Taxes

Income taxes are recorded using the tax allocation basis whereby the provision for income taxes is related to the accounting income for the year.

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the period reported. Actual results could differ from those estimates.

3. INCOME-PRODUCING PROPERTIES

	1999	1998
Land	$ 19,173	$ 19,017
Buildings and equipment	61,993	58,588
	81,166	77,605
Less: Accumulated amortization	8,880	7,848
	$ 72,286	$ 69,757

4. PROPERTY UNDER DEVELOPMENT

	1999	1998
Land costs	$ —	$ 692
Construction costs	—	1,475
	$ —	$ 2,167

5. LAND AND HOUSING UNDER DEVELOPMENT

	1999	1998
Land		
Acquisition costs	$ 7,320	$ 5,737
Carrying costs	7,115	7,954
Development and servicing costs	9,224	10,296
	23,659	23,987
Housing under construction	17,446	12,003
	$ 41,105	$ 35,990

6. LAND HELD FOR FUTURE DEVELOPMENT

	1999	1998
Acquisition costs	$ 22,092	$ 30,290
Carrying costs	18,139	21,604
Development and servicing costs	337	702
	$ 40,568	$ 52,596

7. CASH

	1999	1998
Cash and cash equivalents	$ 8,443	$ 5,517
Restricted cash	11,399	7,591
	$ 19,842	$ 13,108

Cash and cash equivalents include unrestricted cash and term deposits of a maturity of three months or less from the date of acquisition. Restricted cash includes deposits required to secure outstanding guarantees and letters of credit and amounts required to fund costs to complete projects sold.

8. AMOUNTS RECEIVABLE

	1999	1998
Receivables under agreements of purchase and sale	$ 38,633	$ 22,345
Mortgages and loans receivable	622	685
Other	233	—
	$ 39,488	$ 23,030

Included in receivables under agreements of purchase and sale is $10,191 due from three parties in 2000 and $22,857 due from five parties in 2001 relating to sales in three different developments. The receivables under agreements of purchase and sale generally bear no interest for a portion of their period and are due 2 years from the adjustment (closing) date as defined in the individual agreements, or upon transfer of land title.

In accordance with the company's accounting policy, $35,192 of the receivables under agreements of purchase and sale are shown net of a $2,264 discount at September 30, 1999 (1998 - $18,748 and $1,519, respectively) to yield a 7% per annum return.

Included in receivables under agreements of purchase and sale in 1999 is $2,841 due from a joint venturer relating to a land sale in the year.

The due dates of the receivables, as defined in the individual agreements, are as follows:

Years ending September 30	
2000	$ 14,088
2001	23,216
2002	93
2003	1,591
2004	500
	$ 39,488

9. BANK ADVANCES

Bank advances consist of operating loans, bearing a year-end weighted average interest rate of 7.14% (1998 - 8.13%). They are secured by a $150,000 demand debenture providing fixed charges against the company's properties, a floating charge over all other assets and by a registered general assignment of book debts.

The due dates of the bank loans are as follows:

Demand operating loans	$ 385
Years ending September 30	
2000	18,399
2001	11,897
	$ 30,681

10. LOANS PAYABLE

	1999	1998
Mortgage loans	$ 68,345	$ 66,694
Debenture (note 1)	30,512	27,845
	$ 98,857	$ 94,539

The mortgage loans, other than on the housing under development which generally are interest-free for certain periods, bear interest at a year-end weighted average rate of 9.66% (1998 - 9.64%) per annum. The loans are secured as follows:

	1999	1998
Income-producing properties	$ 54,250	$ 53,629
Land and housing under development	9,876	5,439
Land held for future development	4,219	7,626
	$ 68,345	$ 66,694

Principal repayments of the mortgage loans are due as follows:

Years ending September 30	
2000	$ 7,725
2001	20,280
2002	10,790
2003	5,287
2004	852
Thereafter	23,411
	$ 68,345

Mortgage loans payable secured by land and housing under development include $9,876 (1998 - $5,439) owing to companies partly owned by certain shareholders of the company and those secured by land held for future development include $3,575 (1998 - $6,874) owing to a joint venturer partly owned by a shareholder.

The company has issued a demand debenture for $40,000 as security for a loan in the principal amount of $16,811 owing to a company controlled by a director, as trustee for a lending syndicate which includes certain shareholders. Interest on this loan was charged at prime plus 2% until June 30, 1999. Effective July 1, 1999 the rate was increased to prime plus 4% as a result of negotiations with the lender. Interest expense for the year ended September 30, 1999 amounted to $2,667 (1998 - $2,205). The debenture is subordinated to bank advances and mortgage loans and provides for a fixed and floating charge on all the company's assets. No specific terms of repayment have been established for this loan and accrued interest owing is being added to the principal amount of the loan. See note 1.

At September 30, 1998, the company settled all of its outstanding liabilities and obtained releases from all claims and judgements relating to two projects, one a land assembly in Metropolitan Toronto and the other, the Les Cours Mont-Royal project. As a result, the company recorded a gain of $22,653 on settlement of debt with several lenders of $37,428. The settlement was financed by an increase in bank advances of $14,000 and $775 from operations. In 1998, the company recorded interest of $1,628 on the debt relating to the land assembly at an average rate of 10% and $2,000 relating to the Les Cours Mont-Royal project at an average rate of 11.75%.

11. CAPITAL STOCK

Authorized shares:

Class A, non-voting, without par value	– Unlimited
Class B, voting, without par value	– Unlimited
First preference shares non-voting, without par value	– 1,500,000

Class A shares, into which Class B shares may be converted, are entitled to non-cumulative annual preferential cash dividends of $0.36 per share. After Class B shareholders have received a dividend of an equal amount, any subsequent dividend payments are divided equally between both classes of shares. Class A shares may not be converted into Class B shares. Class A shares rank prior to Class B shares with respect to the return of capital paid up thereon in the event of a dissolution, liquidation or wind-up of the company.

An analysis of changes in issued capital stock is as follows:

	Number of shares		Amount		
	Class A	Class B	Class A	Class B	Total
Balance, September 30, 1997	19,239,571	2,128,871	$ 33,132	$ 4,137	$ 37,269
Issued during 1998 on conversion of Class B shares into Class A shares	5,248	(5,248)	9	(9)	—
Balance, September 30, 1998	19,244,819	2,123,623	33,141	4,128	37,269
Issued during 1999 on conversion of Class B shares into Class A shares	201	(201)	—	—	—
Balance, September 30, 1999	19,245,020	2,123,422	$ 33,141	$ 4,128	$ 37,269

12. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the company has commitments to complete servicing requirements in connection with various land development projects. These commitments have been guaranteed by irrevocable letters of credit amounting to $3,524 at September 30, 1999.

The company is contingently liable for its associates' share of the obligations in operating partnerships, joint venture and co-tenancy developments. In each case, assets of the partnership, joint venture or co-tenancy are available and adequate to satisfy such obligations.

13. INCOME TAXES

	1999	1998
Current	$ 349	$ 413
Deferred	5,163	7,967
	$ 5,512	$ 8,380

The income tax provision differs from the amount computed by applying the average statutory Canadian federal and provincial income tax rates to the earnings before income taxes. These differences are as follows:

	1999	1998
Expected income tax	$ 5,034	$ 10,916
Large corporations tax	328	408
Gain on settlement of debt not tax effected since the original provision was not tax effected	—	(2,891)
Other	150	(53)
	$ 5,512	$ 8,380

The company has $6,750 of net-capital losses which have not been recognized for accounting purposes.

14. CAPITALIZED COSTS

The following costs were capitalized during the year:

	1999	1998
Interest	$ 1,022	$ 1,423
Realty taxes	195	581
General and administrative	354	190
	$ 1,571	$ 2,194

These amounts were allocated as follows:

	1999	1998
Land and housing under development	$ 978	$ 1,019
Land held for future development	467	1,106
Property under development	126	69
	$ 1,571	$ 2,194

15. PARTNERSHIPS, JOINT VENTURES AND CO-TENANCIES

The company's proportionate share of operating partnership, joint venture and co-tenancy operations is reflected in these consolidated financial statements as follows:

	1999	1998
Assets	$ 57,086	$ 51,719
Liabilities	23,102	16,877
	$ 33,984	$ 34,842
Revenue	$ 39,356	$ 20,690
Expenses	31,237	16,182
Income	$ 8,119	$ 4,508
Cash provided by (used in)		
Operating activities	$ 3,039	$ 116
Investing activities	—	—
Financing activities	(2,481)	(357)

16. RELATED PARTY TRANSACTIONS

In the normal course of business, the company sells property and provides management services to certain partnerships, joint ventures and co-tenancies in which it has an interest. In addition, some lots within the housing joint ventures were acquired from companies partly owned by certain shareholders. Certain shareholders and directors are also participants in some of the land and housing joint ventures. The affairs of the company are managed by two shareholders who are also officers and directors.

Material transactions during the year were as follows:

	1999	1998
Land sales	$ 6,823	$ 400
Land purchases	14,516	6,604
Management fee income	428	363
Management fee expense	1,010	414

Additional related party transactions and balances are described in notes 8 and 10.

17. FINANCIAL INSTRUMENTS

The carrying values and estimated fair values of the company's financial instruments at September 30, 1999 and 1998 are set out below:

1999	Carrying Value	Fair Value
Bank advances	$ 30,681	$ 30,681
Mortgage loans	68,345	73,321
Debenture	30,512	30,512
1998		
Bank advances	$ 41,254	$ 41,254
Mortgage loans	66,694	73,264
Debenture	27,845	27,845

The fair value of the bank advances approximates their carrying value because they bear interest at floating rates. The fair value of the mortgage loans was estimated by discounting contractual repayments at current market rates of similar instruments. The fair value of the debenture approximates its carrying value since it is effectively due on demand. The fair values of cash and cash equivalents, restricted cash, amounts receivable, accounts payable and accrued liabilities, deposits on sales and income taxes payable approximate their carrying values due to their short-term maturities.

18. SEGMENTED INFORMATION

The company operates in Southern Ontario in the Greater Toronto Area and surrounding communities and has three reportable segments: development land for sale or transfer to the income-producing properties segment, construction and operation of income-producing properties and the construction and sale of residential units. The accounting policies of the segments are the same as those described in note 2. The results of operations and the amounts invested in these segments are as follows:

Income (Expenses)

	Revenue 1999	Revenue 1998	Earnings 1999	Earnings 1998
Land development	$ 45,131	$ 32,858	$ 14,719	$ 8,969
Income-producing properties	13,783	12,865	2,732	2,013
Residential construction	19,558	9,539	900	894
Other	362	218	362	218
	$ 78,834	$ 55,480	18,713	12,094
Unallocated Amounts				
Interest			(4,020)	(7,809)
General and administrative expense			(2,858)	(2,449)
Loss on disposal of income-producing property			(194)	—
Gain on settlement of debt			—	22,653
Amortization			(356)	(25)
Income taxes			(5,512)	(8,380)
Net earnings for the year			$ 5,773	$ 16,084
Identifiable Assets				
Land development			$ 117,730	$ 107,400
Income-producing properties			74,498	73,246
Residential construction			20,816	15,786
			213,044	196,432
Unallocated corporate assets			2,249	2,463
Total company assets			$ 215,293	$ 198,895

Capital expenditures in the income-producing properties segment during the year ended September 30, 1999 amounted to $2,379 (1998 - $2,209).

Land revenue for 1998 excludes $692 of land transferred to the income-producing properties segment.

Earnings of the income-producing properties segment for the year ended September 30, 1999 are net of depreciation of $1,028 (1998 - $971) and interest expense of $5,813 (1998 - $5,877).

The land development segment includes revenue from a single buyer amounting to $8,722 for the year ended September 30, 1999. In 1998 another buyer accounted for $8,098 of that segment's revenue.

19. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the company's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

CORPORATE DIRECTORY

DIRECTORS

Rudolph Bratty
Solicitor and Partner
Bratty and Partners

John H. Craig
Solicitor and Partner
Cassels Brock & Blackwell
Barristers and Solicitors

John H. Daniels
President
The Daniels Group Inc.

Emilio J. Gambin
President
Gammond Investments Limited

Stanley Goldfarb
President
Goldfarb Management Services Limited

Marco Muzzo
Chief Executive Officer
Muzzo Brothers Group Inc.

H. Clifford Hatch, Jr.
Director

OFFICERS

Marco Muzzo
Chairman of the Board

Stanley Goldfarb
President & Treasurer

John H. Craig
Secretary

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STOCK EXCHANGE LISTING

The Toronto Stock Exchange
The Toronto Stock Exchange
Symbols: CXA.A and CXA.B

OPERATING MANAGEMENT EAST WOODBRIDGE DEVELOPMENTS

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Office Manager

Melissa Chu
Leasing and Property Manager

Ivano Manias
Planner

Lou Pompili
Engineering

Eve Toews
Controller

AUDITORS

PricewaterhouseCoopers LLP

TRANSFER AGENT

Montreal Trust Company

SOLICITORS

Cassels Brock & Blackwell

ANNUAL MEETING

Consolidated HCI Holdings Corporation Annual Meeting will be held on March 24, 2000
at 11:00 A.M. in the Blackcreek Room, Triumph Howard Johnson Plaza
2737 Keele Street, Toronto, Ontario

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